

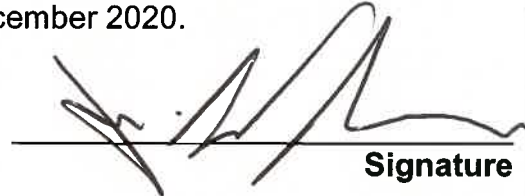


## MINUTES

### CERTIFICATION OF CONFIRMATION OF INVESTMENT COMMITTEE MINUTES

7 FEBRUARY 2019

I, Cr Jai Wilson hereby certify that the minutes from the Investment Committee Meeting held on 7 February 2019 pages (1) to (46) were confirmed at the Ordinary meeting of Council held on 3 December 2020.



Signature

Cr Jai Wilson  
Person presiding at Meeting

## INVESTMENT COMMITTEE

### MINUTES

7 February 2019

(REF: D2018/17023)

A meeting of the Investment Committee was held at the EMRC Administration Office, 1<sup>st</sup> Floor, 226 Great Eastern Highway, BELMONT WA 6104 on **Thursday, 7 February 2019**. The meeting commenced at **6:30pm**.

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## 1 DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS

The Acting Chief Executive Officer opened the meeting at 6:30pm, welcomed members and Mr Erik Gates from Prudential Investment Services and acknowledged the traditional custodians of the land on which the meeting was held and paid respect to the elders past, present and future.

## 2 ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE (PREVIOUSLY APPROVED)

### Councillor Attendance

Cr Jai Wilson	EMRC Member	City of Bassendean
Cr Barry McKenna	EMRC Member	City of Bayswater
Cr Janet Powell	EMRC Member	City of Belmont
Cr Geoff Stallard	EMRC Member	City of Kalamunda
Cr David Lavell	EMRC Member	Shire of Mundaring
Cr Adam Kovalevs	EMRC Member	City of Swan

### EMRC Officers

Mrs Wendy Harris	Acting Chief Executive Officer
Mr Hua Jer Liew	Director Corporate Services
Mr David Ameduri	Manager Financial Services
Mrs Annie Hughes-d'Aeth	Personal Assistant to Director Corporate Services (Minutes)

### Visitor(s)

Mr Erik Gates	Prudential Investment Services
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## 3 DISCLOSURE OF INTERESTS

### 3.1 CR BARRY MCKENNA – FINANCIAL INTEREST

Item:	14.1
Subject:	Review of The Management of Investment Policy
Nature of Interest:	Chairman of Bayswater Community Financial Services – Bendigo Bank

### 3.2 WENDY HARRIS – ACTING CHIEF EXECUTIVE OFFICER – FINANCIAL INTEREST

Item:	14.1
Subject:	Review of The Management of Investment Policy
Nature of Interest:	Board Member of Gingin Districts Community Financial Services (Bendigo Bank)

### 3.3 HUA JER LIEW – DIRECTOR CORPORATE SERVICES – FINANCIAL INTEREST

Item:	14.1
Subject:	Review of The Management of Investment Policy
Nature of Interest:	Officer has direct financial interest due to direct ownership of banking shares as well as indirect interest through superannuation funds. Officer has declared these in his Annual Return.

## 4 ANNOUNCEMENTS BY THE CHAIRMAN OR PRESIDING MEMBER WITHOUT DISCUSSION

Nil



## **5 ELECTION OF CHAIRMAN AND DEPUTY CHAIRMAN OF THE INVESTMENT COMMITTEE (IC)**

### **5.1 ELECTION OF A CHAIRMAN OF THE INVESTMENT COMMITTEE (IC)**

**REFERENCE: D2018/17026**

#### **PURPOSE OF REPORT**

The purpose of this report is to provide for an election to be conducted for the Office of Chairman of the Investment Committee (IC).

#### **KEY POINTS AND RECOMMENDATION(S)**

- It is a statutory requirement that the Committee elects a Chairman at the first meeting of the Investment Committee (IC) after an Ordinary Council elections day.

#### **Recommendation(s)**

That the members of the Investment Committee elect a Chairman.

#### **SOURCE OF REPORT**

Director Corporate Services

#### **BACKGROUND**

At the Special Meeting of Council held on Thursday 9 November 2017, the EMRC Chairman and Deputy Chairman were elected and members to the EMRC Committees were appointed.

#### **IC MEMBERS 2017 - 2019**

The following members were appointed to the IC at the Special Meeting of Council held on 9 November 2017:

EMRC Member	Cr Jai Wilson	Town of Bassendean
EMRC Member	Cr Barry McKenna	City of Bayswater
EMRC Member	Cr Janet Powell	City of Belmont
EMRC Member	Cr Geoff Stallard	City of Kalamunda
EMRC Member	Cr David Lavell	Shire of Mundaring
EMRC Member	Cr Adam Kovalevs	City of Swan



*Item 5.1 continued*

## **REPORT**

The Acting CEO will preside at the meeting until the Office of Chairman of the Investment Committee is filled.

In accordance with section 5.12(1) of the *Local Government Act 1995*, (the Act) the members of a committee are to elect a presiding member from amongst themselves in accordance with Schedule 2.3, Division 1.

It is a requirement of Schedule 2.3 of the Act that the election is conducted by the Chief Executive Officer (CEO) and the nominations for the Office are to be given to the Acting CEO in writing before the meeting or during the meeting before the close of nominations. Furthermore, if a member is nominated by another member the Acting CEO is not to accept the nomination unless the nominee has advised the Acting CEO, orally or in writing, that he or she is willing to be nominated for the Office. Members are to vote on the matter by secret ballot.

The procedure outlined in Schedule 2.3 of the Act will be followed if there is an equality of votes.

The following material accompanies the agenda for this meeting as a means of assisting members of the Committee to nominate themselves or another member for the Office of Chairman of the IC:

1. Investment Committee Terms of Reference;
2. A blank nomination form for the Office of Chairman of the IC, nominate oneself;
3. A blank nomination form for the Office of Chairman of the IC, nominate another; and
4. A blank ballot paper for Election of Chairman of the IC.

Ballot papers will be made available prior to voting.

The completed nomination forms are to be given to the Acting CEO before the meeting or when the Acting CEO calls for them when dealing with this item at the meeting.

## **STRATEGIC/POLICY IMPLICATIONS**

Council Policy 2.1 provides for the establishment of the Investment Committee.

Key Result Area 3 – Good Governance

- 3.3 To provide responsible and accountable governance and management of the EMRC

## **FINANCIAL IMPLICATIONS**

Nil

## **SUSTAINABILITY IMPLICATIONS**

Nil



*Item 5.1 continued*

### **MEMBER COUNCIL IMPLICATIONS**

<b>Member Council</b>	<b>Implication Details</b>
Town of Bassendean	} Nil
City of Bayswater	
City of Belmont	
City of Kalamunda	
Shire of Mundaring	
City of Swan	

### **ATTACHMENT(S)**

1. Investment Committee Terms of Reference (Ref: D2019/00783)
2. A blank nomination form for the Office of Chairman of the IC, nominate oneself (Ref: D2019/00784)
3. A blank nomination form for the Office of Chairman of the IC, nominate another (Ref: D2019/00784)
4. Ballot Paper – Election of IC Chairman (Ref: D2018/00786)

### **VOTING REQUIREMENT**

Secret Ballot

### **RECOMMENDATION(S)**

That the members of the Investment Committee elect a Chairman.

The Acting Chief Executive Officer advised that no nominations for the Office of Chairman of the IC had been received and called for nominations.

Cr Lavell nominated Cr Wilson who accepted the nomination.

No further nominations were received and the Acting Chief Executive Officer closed nominations.

### **ANNOUNCEMENT: OF THE OFFICE OF CHAIRMAN**

The Acting Chief Executive Officer declared Cr Wilson, Chairman of the IC from 7 February 2019 until the next Local Government Elections in 2019.

The Acting Chief Executive Officer congratulated Cr Wilson and vacated the chair at 6:33pm.

At 6:33pm, Cr Wilson took the Chair.

**TERMS OF REFERENCE**  
**INVESTMENT COMMITTEE**

**1. OBJECTIVES OF COMMITTEE**

The Investment Committee (IC) is a formally appointed committee of Council and is responsible to that body. It has been established to deal with matters related to EMRC's Management of Investment Policy.

1.1. The Committee's role is to:

- (a) Report to Council and provide appropriate advice and recommendations on matters relevant to its terms of reference in order to facilitate decision-making by Council in relation to the discharge of its responsibilities.
- (b) Carry out its functions and fulfil its responsibilities as required by the Local Government Act 1995 and associated regulations, guidelines and protocols of the Council which are relevant to the Committee.
- (c) The Committee will only have those executive powers as specifically delegated to it.

**2. RESPONSIBILITIES**

2.1 The Investment Committee shall have the following functions:

- (a) To consider amendments to and revision of Policy 3.3 Management of Investment Policy;
- (b) To deal with matters referred to the committee, by the Chief Executive Officer (CEO), under Policy 3.3 Management of Investment Policy; and
- (c) To deal with legal and other matters associated with the Grange Securities Ltd / Lehman Investment Mandate Agreement (3 March 2005) as referred to the Committee by the CEO or Council.

**3. MEMBERSHIP:**

3.1 The Investment Committee will comprise of Council members only.

3.2 Deputy members of the Committee will not be appointed.

3.3 Members will be appointed for a period of two years following each ordinary Council election.

#### **4. MEETINGS**

- 4.1 The Committee shall meet as required, convened at the discretion of the Chairperson.

#### **5. OPERATING PROCEDURES**

- 5.1 All meetings of the IC are to be conducted in accordance with the Local Government Act 1995, associated Regulations and the *EMRC Standing Orders Local Law 1998*.

- 5.2 A quorum for a meeting of the Committee shall be at least 50% of the number of offices (whether vacant or not) of member of the Committee.

#### **5.3 Voting**

- (a) All decisions of the Committee shall be made on the basis of a simple majority decision of the members present or, if another kind of majority has been prescribed by regulations for the particular kind of decision, by that kind of majority.
- (b) If the decision results in a tied vote, the person presiding is to cast a second vote.
- (c) Persons other than Committee members are not entitled to cast a vote.
- (d) All other aspects related to voting procedure shall be consistent with relevant sections of the *EMRC Standing Orders Local Law 1998*.

- 5.4 Other EMRC staff may attend meetings, at the discretion of the Chief Executive Officer to provide advice and information when required.

#### **6. REPORTING**

- 6.1 The Committee shall after every meeting forward the minutes of that meeting to the next Ordinary Meeting of Council, including a report explaining any specific recommendations and key outcomes.

#### **7. DELEGATED POWER**

- 7.1 The Investment Committee has only those delegated powers and duties of Council associated with the EMRC Investment Portfolio, that have not been delegated to the CEO inclusive of, but not limited to:

- (a) The acceptance of tenders for the provision of advice and services; and
- (b) To deal with any legal proceedings that may need to be initiated.



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**Related Documentation:**

Policy 2.1 Committees of Council

Policy 3.3 Management of Investments Policy

EMRC Standing Orders Local Law 2013

EMRC Code of Conduct

**Administration:**

Adopted / Reviewed by Council: 23 September 2010  
18 September 2014  
06 December 2018

Next Review: Following the Ordinary Elections in 2021

Responsible Directorate Corporate Services



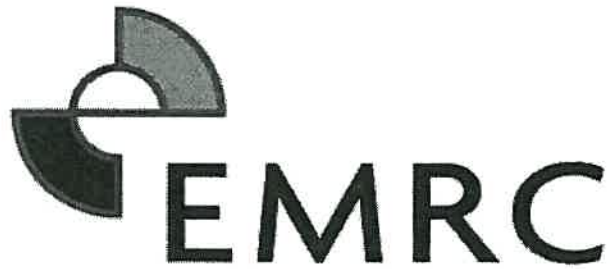
## **Nomination for Chairman of the Investment Committee**

**To the Acting Chief Executive Officer**

I hereby nominate myself, \_\_\_\_\_ for the position of Chairman of the Eastern Metropolitan Regional Council Investment Committee for the term of Office commencing on the date of the election and continuing until the next ordinary elections day and/or other circumstances occur in accordance with section 5.11 of the *Local Government Act 1995*.

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_



## Nomination for Chairman of the Investment Committee

To the Acting Chief Executive Officer

I hereby nominate \_\_\_\_\_ for the position of Chairman of the Eastern Metropolitan Regional Council Investment Committee for the term of Office commencing on the date of the election and continuing until the next ordinary elections day and/or other circumstances occur in accordance with section 5.11 of the *Local Government Act 1995*.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

\*I \_\_\_\_\_ hereby certify that I accept the above nomination to the position of Chairman of the Eastern Metropolitan Regional Council Investment Committee.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

\*This certificate is to be completed when a Representative is nominated by another Representative.



**Eastern Metropolitan Regional Council  
Investment Committee  
Thursday 7 February 2019**

**BALLOT PAPER FOR THE  
ELECTION OF THE  
INVESTMENT COMMITTEE CHAIRMAN**

***HOW TO VOTE***

**Place a tick in the box next to the candidate you want to elect.**

**Do not make any other marks on the ballot paper.**

**First Name, Last Name**

**First Name, Last Name**

**First Name, Last Name**



## 5.2 ELECTION OF A DEPUTY CHAIRMAN OF THE INVESTMENT COMMITTEE (IC)

REFERENCE: D2018/17025

### PURPOSE OF REPORT

The purpose of this report is to provide for an election to be conducted for the Office of Deputy Chairman of the Investment Committee (IC).

### KEY POINTS AND RECOMMENDATION(S)

- In accordance with section 5.12(2) of the *Local Government Act 1995*, the members of a committee may elect a deputy presiding member from amongst themselves.

#### Recommendation(s)

That the members of the Investment Committee elect a Deputy Chairman.

### SOURCE OF REPORT

Director Corporate Services

### BACKGROUND

At the Special Meeting of Council held on Thursday 9 November 2017, the EMRC Chairman and Deputy Chairman were elected and members to the EMRC Committees were appointed.

### IC MEMBERS 2017 - 2019

The following members were appointed to the IC at the Special Meeting of Council held on 9 November 2017:

EMRC Member	Cr Jai Wilson	Town of Bassendean
EMRC Member	Cr Barry McKenna	City of Bayswater
EMRC Member	Cr Janet Powell	City of Belmont
EMRC Member	Cr Geoff Stallard	City of Kalamunda
EMRC Member	Cr David Lavell	Shire of Mundaring
EMRC Member	Cr Adam Kovalevs	City of Swan



*Item 5.2 continued*

## **REPORT**

In accordance with section 5.12(2) of the *Local Government Act 1995*, (the Act) the members of a committee may elect a deputy presiding member from amongst themselves.

It is a requirement of Schedule 2.3 of the Act that the election of the Deputy Chairman is conducted by the Chairman and the nominations for the Office are to be given to the Acting Chief Executive Officer (CEO) in writing before the meeting or the Chairman during the meeting before the close of nominations. Furthermore, if a member is nominated by another member, the Chairman is not to accept the nomination unless the nominee has advised the Chairman, orally or in writing, that he or she is willing to be nominated for the Office. Members are to vote on the matter by secret ballot.

The procedure outlined in Schedule 2.3 of the Act will be followed if there is an equality of votes.

The following material accompanies the agenda for this meeting as a means of assisting members of the Committee to nominate themselves or another member for the Office of Deputy Chairman of the IC:

1. A blank nomination form for the Office of Deputy Chairman of the IC, nominate oneself;
2. A blank nomination form for the Office of Deputy Chairman of the IC, nominate another; and
3. A blank ballot paper for Election of Deputy Chairman of the IC.

Ballot papers will be made available prior to voting.

The completed nomination forms are to be given to the Acting CEO before the meeting or when called for by the Chairman when dealing with this item at the meeting.

## **STRATEGIC/POLICY IMPLICATIONS**

Council Policy 2.1 provides for the establishment of the Investment Committee.

Key Result Area 3 – Good Governance

- 3.3 To provide responsible and accountable governance and management of the EMRC

## **FINANCIAL IMPLICATIONS**

Nil

## **SUSTAINABILITY IMPLICATIONS**

Nil



*Item 5.2 continued*

### **MEMBER COUNCIL IMPLICATIONS**

<b>Member Council</b>	<b>Implication Details</b>
Town of Bassendean	} Nil
City of Bayswater	
City of Belmont	
City of Kalamunda	
Shire of Mundaring	
City of Swan	

### **ATTACHMENT(S)**

1. A blank nomination form for the Office of Deputy Chairman of the IC, nominate oneself (Ref: D2019/00761)
2. A blank nomination form for the Office of Deputy Chairman of the IC, nominate another (Ref: D2018/00761)
3. Ballot Paper – Election of IC Deputy Chairman (Ref: D2018/00760)

### **VOTING REQUIREMENT**

Secret Ballot

### **RECOMMENDATION(S)**

That the members of the Investment Committee elect a Deputy Chairman.

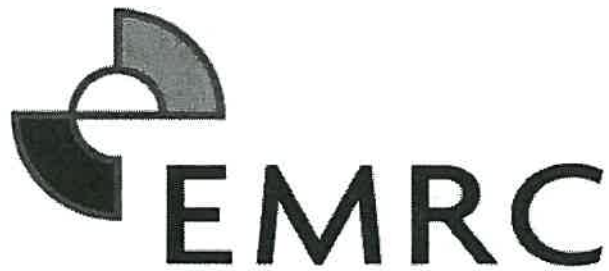
The Chairman advised that no nomination for the Office of Deputy Chairman of the IC had been received and called for nominations.

Cr McKenna nominated Cr Lavell who accepted the nomination.

No further nominations were received and the Chairman closed nominations.

### **ANNOUNCEMENT: OF THE OFFICE OF DEPUTY CHAIRMAN**

The Chairman declared Cr Lavell as Deputy Chairman of the Investment Committee from 7 February 2019 until the next Local Government Elections in 2019.



## Nomination for Deputy Chairman

To the Acting Chief Executive Officer

I hereby nominate myself, \_\_\_\_\_ for the position of Deputy Chairman of the Eastern Metropolitan Regional Council Investment Committee for the term of Office commencing on the date of the election and continuing until the next ordinary elections day and/or other circumstances occur in accordance with section 5.11 of the *Local Government Act 1995*.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_





## Nomination for Deputy Chairman

To the Acting Chief Executive Officer

I hereby nominate \_\_\_\_\_ for the position of Deputy Chairman of the Eastern Metropolitan Regional Council Investment Committee for the term of Office commencing on the date of the election and continuing until the next ordinary elections day and/or other circumstances occur in accordance with section 5.11 of the *Local Government Act 1995*.

Signed: \_\_\_\_\_

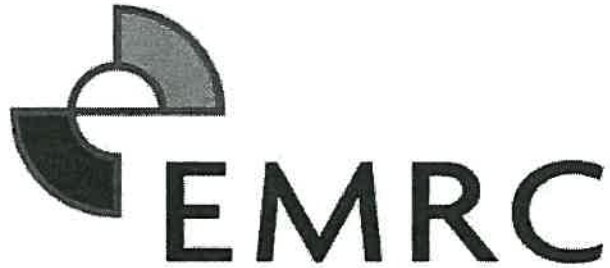
Date: \_\_\_\_\_

\*I \_\_\_\_\_ hereby certify that I accept the above nomination to the position of Deputy Chairman of the Eastern Metropolitan Regional Council Investment Committee.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

\*This certificate is to be completed when a Representative is nominated by another Representative.



**Eastern Metropolitan Regional Council  
Investment Committee  
Thursday 7 February 2019**

**BALLOT PAPER FOR THE  
ELECTION OF THE  
INVESTMENT COMMITTEE DEPUTY CHAIRMAN**

***HOW TO VOTE***

**Place a tick in the box next to the candidate you want to elect.**

**Do not make any other marks on the ballot paper.**

**First Name, Last Name**

**First Name, Last Name**

**First Name, Last Name**



**6 RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE**

Nil

**7 PUBLIC QUESTION TIME**

Nil

**8 PETITIONS, DEPUTATIONS AND PRESENTATIONS**

Nil

**9 CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS**

**9.1 MINUTES OF THE INVESTMENT COMMITTEE MEETING HELD 5 MAY 2016**

That the minutes of the Investment Committee meeting held on 5 May 2016 which have been distributed, be confirmed.

**INVESTMENT COMMITTEE RESOLUTION(S)**

MOVED CR POWELL

SECONDED CR MCKENNA

THAT THE MINUTES OF THE INVESTMENT COMMITTEE MEETING HELD ON 5 MAY 2016 WHICH HAVE BEEN DISTRIBUTED, BE CONFIRMED.

**CARRIED UNANIMOUSLY**

**10 QUESTIONS BY MEMBERS OF WHICH DUE NOTICE HAS BEEN GIVEN**

Nil

**11 QUESTIONS BY MEMBERS WITHOUT NOTICE**

Nil

**12 ANNOUNCEMENT OF CONFIDENTIAL MATTERS FOR WHICH MEETINGS MAY BE CLOSED TO THE PUBLIC**

Nil

**13 BUSINESS NOT DEALT WITH FROM A PREVIOUS MEETING**

Nil



## 14 REPORTS OF EMPLOYEES

### 14.1 REVIEW OF THE MANAGEMENT OF INVESTMENT POLICY

REFERENCE: D2018/17029

#### PURPOSE OF REPORT

The purpose of this report is to review the Council Policy 3.3 - Management of Investments and provide a preference of fossil fuel divestment.

#### KEY POINTS AND RECOMMENDATION(S)

- At its 6 December 2018 meeting, Council resolved to refer the proposal to amend Council Policy 3.3 – Management of Investments to divest from financial institutions that invest in or finance the fossil fuel industry and the consequential changes to the financial statement reports on the state of Council's divestment from fossil fuels to the Investment Committee.
- Following a review in consultation with EMRC's investment advisor, a revised policy is attached for Council to review and adopt.

#### Recommendation(s)

That:

1. Council adopts the investment strategy of investing with financial institutions that do not invest in or finance the fossil fuel industry, as long as:
  - a. The investment is compliant with Council's existing approach to risk management; and
  - b. The investment rate of interest is favourable to other similar investments that may be on offer at the time of investment.
2. The revised EMRC Policy 3.3 Management of Investments forming attachment 3 to this report be adopted by Council.

#### SOURCE OF REPORT

Director Corporate Services

#### BACKGROUND

It was resolved at the Council meeting held on 18 October 2018 (D2018/12194):

*"THAT:*

1. *THE EMRC REQUESTS THAT THE CEO PREPARES FOR THE NEXT COUNCIL MEETING A REPORT OUTLINING THE STEPS AND RESOLUTIONS NECESSARY TO AMEND ALL RELEVANT POLICIES AND PROCEDURES IN ORDER TO REQUIRE THE EMRC TO INVEST WITH FINANCIAL INSTITUTIONS THAT DO NOT INVEST IN OR FINANCE THE FOSSIL FUEL INDUSTRY, SO LONG AS:*
  - a) *THE INVESTMENT IS COMPLIANT WITH COUNCIL'S EXISTING APPROACH TO RISK MANAGEMENT; AND;*
  - b) *THE INVESTMENT RATE OF INTEREST IS FAVOURABLE TO COUNCIL RELATIVE TO OTHER SIMILAR INVESTMENTS THAT MAY BE ON OFFER TO COUNCIL AT THE TIME OF INVESTMENT.*
2. *THE EMRC ALSO REQUESTS THAT THE CEO INCLUDE IN THIS REPORT THE STEPS AND RESOLUTIONS NECESSARY TO REQUIRE THAT EXISTING FINANCIAL STATEMENTS AND REPORTING INCLUDE THE STATE OF COUNCIL'S DIVESTMENT FROM FOSSIL FUELS, AS A PERCENTAGE OF TOTAL FUNDS."*



*Item 14.1 continued*

At the 6 December 2018 meeting, Council resolved (D2018/14131):

***“THAT COUNCIL REFER THE PROPOSAL TO AMEND COUNCIL POLICY 3.3 – MANAGEMENT OF INVESTMENTS TO DIVEST FROM FINANCIAL INSTITUTIONS THAT INVEST IN OR FINANCE THE FOSSIL FUEL INDUSTRY AND THE CONSEQUENTIAL CHANGES TO THE FINANCIAL STATEMENT REPORTS ON THE STATE OF COUNCIL’S DIVESTMENT FROM FOSSIL FUELS TO THE INVESTMENT COMMITTEE.”***

## **REPORT**

Fossil fuel divestment entails the removal of investment assets including shares, bonds, and investment funds from companies involved in extracting fossil fuels, as a way of addressing climate change by tackling its causes. Numerous groups advocate fossil fuel divestment and fossil fuel divestment is reportedly the fastest growing divestment movement in history.

Beginning on university and college campuses in the United States of America in 2010 with students urging their administrations to turn investments in the fossil fuel industry into investments in clean energy and communities most impacted by climate change, the movement soon spread across the globe.

In Australia, fossil fuel divestment is being led by universities and local governments as part of the global fossil fuel divestment campaign launched by 350.org in 2011. However, most Australian local governments cannot invest in shares. Accordingly, this means that they have no direct investments in climate-change-contributing fossil fuel companies. However, most local governments have exposure to fossil fuels via their term deposit accounts with the big Australian banks which in turn are financing billions of dollars’ worth of coal and gas projects across the country. This is in addition to their role as the largest financiers of home mortgages and investment loans in housing as well as emerging renewal energy assets.

### **Reason for fossil fuel divestment**

Fossil fuel divestment aims to reduce carbon emissions by accelerating the adoption of renewable energy through the removal of funding for fossil fuel extraction and exploration. This market signal is intended to place public pressure on companies that are currently involved in fossil fuels to invest in renewable energy, as well as drive demand for low-carbon investment options.

The *Paris Agreement* is an agreement within the United Nations Framework Convention on Climate Change (UNFCCC), which Australia has ratified, dealing with greenhouse gas emissions mitigation, adaptation, and finance to limit global warming to under two degrees Celsius. The *Toronto Principle* is a fossil fuel divestment strategy, which puts into action the aims set forth at the *Paris Agreement*. It was first postulated by Benjamin A. Franta, in an article in the Harvard Crimson, a daily student newspaper of Harvard University, as a reference to the University of Toronto’s fossil fuel divestment process.

The carbon budget to limit global warming to under two degrees Celsius has been estimated at 800 billion tonnes by the end of this century. Fossil fuel reserves are currently valued at US \$28 trillion, but the industry can only safely use US \$6 trillion to remain within the carbon budget, so the industry would have to eliminate almost US \$22 trillion of value. If warming is limited to two degrees Celsius, this will likely leave trillions of dollars in stranded assets. Factors that influence the risk of assets becoming stranded include environmental challenges such as climate change or water availability constraints; changing government regulation such as the introduction of carbon pricing; the falling costs of clean energy technology including solar and wind energy; evolving social norms which includes divestment; and litigation and statutory interpretation changes. These risks suggest that it may be financially imprudent to invest in fossil fuel assets that may become stranded and lose value.

### **Reason against fossil fuel divestment**

In November 2014, a group of seven undergraduate, graduate, and law students filed a lawsuit at the Suffolk County Superior Court against the president and fellows of Harvard University and others for "mismanagement of charitable funds" and "intentional investment in abnormally dangerous activities" in relation to Harvard's investments in fossil-fuel companies.



### *Item 14.1 continued*

In March 2015, the superior court granted Harvard's motion to dismiss. The superior judge wrote: "Plaintiffs have brought their advocacy, fervent and articulate and admirable as it is, to a forum that cannot grant the relief they seek."

Harvard's decision not to divest was explained in an open letter from the University President, Drew Faust:

*Divestment is likely to have negligible financial impact on the affected companies. And such a strategy would diminish the influence or voice we might have with this industry. Divestment pits concerned citizens and institutions against companies that have enormous capacity and responsibility to promote progress toward a more sustainable future.*

### **EMRC's existing investment framework**

The risk management structure of the EMRC has historically been focussed on preservation of capital. This risk management structure has proven successful for many years following the Global Financial Crisis (GFC) as EMRC has benefited from the high term deposit rates offered by Australia's largest and highest credit rated banks.

The four major Australian banks weathered the GFC well and have consistently been ranked among the top twenty "safest" banks worldwide. The most recent annual survey of the World's 50 Safest Banks by Global Finance has the NAB, CBA, ANZ & Westpac ranked between 25 and 30.

The EMRC has a four-tier risk management structure surrounding the investment portfolio:

1. Legislative Requirements.
2. EMRC's Investment Policy.
3. EMRC's Investment Strategy.
4. Advisor Assisted Investment Selection.

Each component has a specific role and together they form a cohesive risk management structure.

### **Fossil Fuel Divestment and its impact on the EMRC**

The EMRC is now considering giving preference to financial institutions/investments not aligned with the fossil fuel industry. Such a strategy will need to align with EMRC's existing approach to risk management, which is the preservation of capital.

The EMRC has over 25 banks from which investment options may be considered. Eight out of the ten largest Australian licensed banks, and eleven of the largest fifteen, provide banking services to organisations in the fossil fuel industry. It is noted that non-fossil fuel aligned institutions consist predominantly of smaller, regional banks which do not have the scope of business to be involved in fossil fuel industry lending and investment.

Smaller institutions have unique risks of their own, typically surrounding business and geographic concentrations. Due to these banks' small sizes and concentrated business risks, they have lower credit ratings than the larger well-diversified banks. Consequently, EMRC's investments under a non-fossil fuel strategy would potentially have a higher risk of capital loss than the current portfolio mix as detailed below.

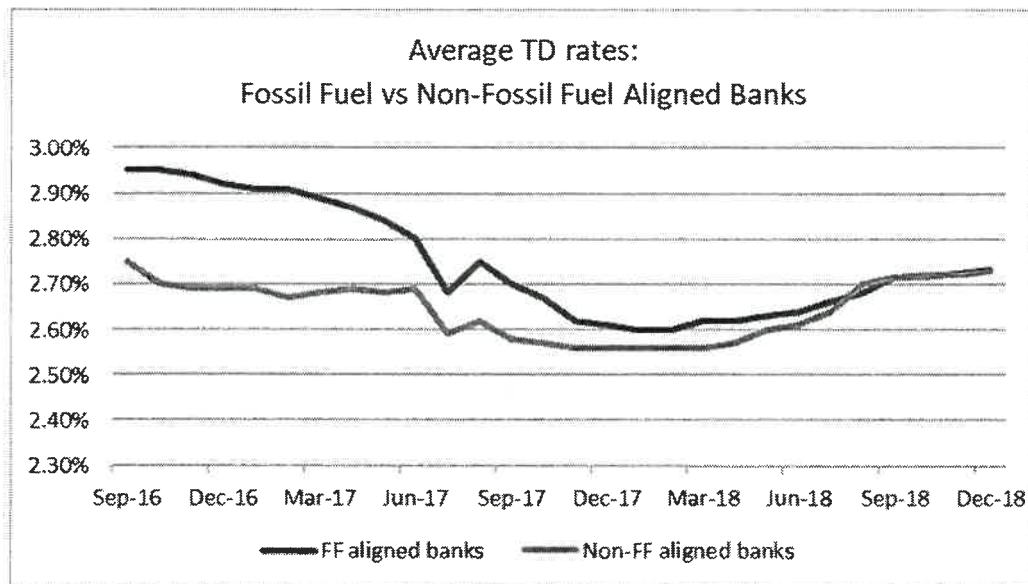
### **Risk vs Return and Diversification**

Two of the fundamental maxims of finance are the risk return trade off and diversification.

A risk return trade off suggests that higher risk is associated with a higher expected return while a lower risk is associated with lower returns. Hence it would be expected that term deposit (TD) rates from these lower rated banks associated with non-fossil fuel aligned institutions would be considerably higher than the larger fossil fuel aligned banks, but this has not always been the case. Over the past two years alone, a diversified selection of the higher rated fossil fuel aligned banks have yielded higher returns than a diversified selection of lower rated non-fossil fuel aligned banks over all but the most recent six months, let alone generate a higher rate of return to compensate for their lower bank ratings (i.e. higher risk).



Item 14.1 continued



Diversification is the process of allocating capital in a way that reduces the exposure to any one particular asset or risk. The largest banks' significant sizes and diversification of business lines are major contributors to the safety of the institutions. This business diversification leads the institutions into areas such as the fossil fuel industry, but they are simultaneously the leading lenders to the sustainable energy industry within Australia. Due to the size of the big four Australian banks, their lending books are highly diversified, spanning many industries beyond merely fossil fuel industries, into local governments, home mortgages, property investment, small business loans, retail industries, large syndicated loans for infrastructure and public works.

### Risk and Credit Ratings

The credit ratings from Standard & Poor's (S&P) provide an expert opinion of the ability of a bank to repay its obligations. The vast majority of non-fossil fuel aligned banks have short term credit ratings in the A-2 category and long term credit ratings in the BBB category.

At present the EMRC currently has term deposits in Suncorp Bank which is classified as a non-fossil fuel aligned bank and is rated higher as A+/A1.

Standard & Poor's long term rating definition (for obligations of more than 12 months) for BBB is:

*An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the obligor to meet its financial commitment on the obligation.*

Standard & Poor's short term rating definition (for obligations of less than 12 months) for A-2 is:

*A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.*

EMRC's current Investment Policy does not allow for deposits in these categories and a change to the Investment Policy will be required to invest in these banks.

There are only a few non-fossil fuel aligned banks with credit ratings below these categories. Investments with short term credit rating categories lower than 'A-3' are considered 'speculative' and are not recommended by our investment advisors for use by the EMRC.



*Item 14.1 continued*

**Size of Term Deposits**

As at 31 December 2018, the EMRC has over \$98 million in term deposits spread over varying maturity to match the cash flow requirements of the organisation. An average tranche of term deposit may range from \$1m to \$5m in size.

This size may pose an issue as not all banks are competitively seeking deposits at any given time. On a day to day basis, many of the smaller banks may not want large, institutional sized deposits (greater than \$500,000). In those situations, if they accept the funds the rates offered may be non-competitive.

**Impact of proposed recommendation on Investment Policy**

If EMRC determines to change its investment strategy to give preference to non-fossil fuel aligned banks, it is recommended to include a new section within the policy to ensure, as much as possible, the continued focus on capital protection for the portfolio.

It is recommended a new section be added:

**Preference for Non-Fossil Fuel Investments**

When making investment decisions, the EMRC will give preference to institutions that do not invest in or finance the fossil fuel industry, where:

- The investment complies with EMRC's investment policy;
- The rate of interest is favourable to EMRC relative to alternative options available at the time;
- The credit rating of the investment is comparable to alternative options available at the time.

Non-fossil fuel investment considerations will be part of the overall selection process to best meet EMRC's investment strategy objectives while ensuring compliance with prevailing legislation and this Investment Policy.

Other changes to the Investment Policy will be required. To give preference to non-fossil fuel aligned investments there would have to be changes to the credit limit frameworks in EMRC's Investment Policy.

As the vast majority of non-fossil fuel aligned banks have credit ratings in the BBB (long term) and A-2 (short term) categories, allowance for these lower rated exposures would have to be added. The following additions to EMRC's credit limit frameworks, highlighted in yellow, would be required to allow for a preference for non-fossil fuel aligned investments:

**i. Overall Portfolio Limits**

To control the credit quality on the entire portfolio, the credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

During the GFC, the EMRC had to write down investments totalling \$7.4m over two successive years. Having regard to this value, it is incumbent to assess the appropriate limit given the EMRC's current portfolio of \$98m to maintain the objective of preservation of capital.

A change to the current portfolio of \$98m would mean that increasing the limit by 10% would mean that an additional \$9.8m would be exposed to additional risk of capital loss by placing it on a lower rated bank for little or no additional premium on the basis of an environmental policy.

As such, it is recommended that no more than 15% be invested in BBB or A-2 rated banks should Council decide to invest in lower rating non-fossil aligned banks. This would equate to approximately \$14.4m based on the EMRC's portfolio of \$98m at the end of December 2018.





*Item 14.1 continued*

<b>S&amp;P Long Term Rating</b>	<b>S&amp;P Short Term Rating</b>	<b>Portfolio Maximum %</b>
AAA	A-1 +	100%
AA	A-1	100%
BBB	A-2	15%

However it should be noted that any change to allow a lower rated investment will introduce greater credit risk to the EMRC's investment portfolio.

**ii. Single Entity Exposure**

Exposure to an individual institution will be restricted by its credit rating so that single entity exposure is limited, as detailed in the table below:

<b>S&amp;P Long Term Rating</b>	<b>S&amp;P Short Term Rating</b>	<b>Portfolio Maximum %</b>
AAA	A-1+	45%
AA	A-1	35%
BBB	A-2	5%

It is recommended that no more than 5% be invested in a single BBB or A-2 rated bank. This would have equated to approximately \$4.9m based on the EMRC's portfolio of \$98m at the end of December 2018.

Again, it should be noted that the proposed change may introduce greater credit risk to the EMRC's investment portfolio.

**Changes to Financial Report**

It is a requirement of the *Local Government (Financial Management) Regulations 1996* (r.34) that a Local Government is to prepare and present to Council financial reports in such a form as the Local Government considers to be appropriate. Accordingly, the proposed changes can be accommodated within the attachment "Investment Report" that is distributed with the monthly Financial Report received by Council.

It should be noted that this change only applies to the monthly Financial Report presented to Council and not the Annual Financial Report. The Annual Financial Report does not include information of such investment in fossil fuel or non-fossil fuel mix as the presentation of the Annual Financial Report is governed by the *Local Government Act 1995*, the *Local Government (Financial Management) Regulations 1996* (as amended) and to the extent that they are not inconsistent with Australian Accounting Standards.

The EMRC's financial advisor has been organised to attend and brief the IC members on the ramifications of the proposed amendments.

**STRATEGIC/POLICY IMPLICATIONS**

**Key Result Area 3 – Good Governance**

- 3.3 To provide responsible and accountable governance and management of the EMRC
- 3.4 To continue to improve financial and asset management practices

**FINANCIAL IMPLICATIONS**

As at December 2018, the EMRC has over \$98 million in investments.



*Item 14.1 continued*

## **SUSTAINABILITY IMPLICATIONS**

As reflected in the report.

## **MEMBER COUNCIL IMPLICATIONS**

<b>Member Council</b>	<b>Implication Details</b>
Town of Bassendean	} Nil direct implications
City of Bayswater	
City of Belmont	
City of Kalamunda	
Shire of Mundaring	
City of Swan	

## **ATTACHMENT(S)**

1. Original Management of Investments Policy 3.3 (Ref: D2019/01938)
2. Revised Management of Investments Policy 3.3 with tracked changes (Ref: D2019/01915)
3. Revised Management of Investments Policy 3.3 (Ref: D2019/01705)

## **VOTING REQUIREMENT**

Simple Majority

## **RECOMMENDATION(S)**

That:

1. Council adopts the investment strategy of investing with financial institutions that do not invest in or finance the fossil fuel industry, as long as:
  - a. The investment is compliant with Council's existing approach to risk management; and
  - b. The investment rate of interest is favourable to other similar investments that may be on offer at the time of investment.
2. The revised EMRC Policy 3.3 Management of Investments forming attachment 3 to this report be adopted by Council.



*Item 14.1 continued*

Discussion ensued

The Director Corporate Services provided a brief outline of the report and discussion ensued on the following points:

- Background of the transition to placing funds with banks who invest in non-fossil fuel industries;
- Preservation of capital;
- ADI (Authorised Deposit Institution) ratings (ie: AAA, BBB);
- Australian banking guarantee; and
- Diversification by spreading investments over a greater range of ADI's.

**IC RECOMMENDATION(S)**

MOVED CR LAVELL

SECONDED CR STALLARD

That:

1. Council adopts the investment strategy of investing with financial institutions that do not invest in or finance the fossil fuel industry, as long as:
  - c. The investment is compliant with Council's existing approach to risk management; and
  - d. The investment rate of interest is favourable to other similar investments that may be on offer at the time of investment.
2. The revised EMRC Policy 3.3 Management of Investments forming attachment 3 to this report be adopted by Council.

**COUNCIL RESOLUTION(S)**

MOVED CR

SECONDED CR



## 3.3 Management of Investments Policy

### STRATEGIC PLAN OBJECTIVE

3.4 To continue to improve financial and asset management practices.

### PURPOSE

To provide for the investment of EMRC's surplus funds at the most favourable rate of return whilst ensuring prudent consideration of risk and security for the investment type and that liquidity requirements are being met.

To ensure that investments are managed with care, diligence and skill and that the management of the portfolio is carried out to safeguard the portfolio and not for speculative purposes.

Establish guidelines to ensure investments:

- Meet legislative requirements;
- Optimise investment income and returns within acceptable risk parameters;
- Ensure that investments match the liquidity needs of the EMRC; and
- Are invested at the most favourable rate of interest available to it at the time whilst having due consideration of risk and security for that investment type.

### LEGISLATION

*Local Government Act 1995 s.6.14*

*Local Government (Financial Management) Regulations 1996 – r. 19-19C, 28 & 49*

*Local Government (Financial Management) Amendment Regulations 2017 s.19C(2)(b)*

*Trustees Act 1962 - Part III Investments*

### POLICY STATEMENT

#### 1. Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of EMRC's investment portfolio. This policy requires officers to disclose any conflict of interest to the CEO.

#### 2. Delegation of Authority

Authority for implementation of the Management of Investments Policy is delegated by Council to the CEO in accordance with the *Local Government Act 1995*. The CEO may in turn delegate the day-to-day management of Council's investment portfolio to the Director, Corporate Services.



### **3. Investment Ratings**

Investment ratings in this policy are based on those issued by Standard & Poor's.

In the event a proposed investment is not rated by Standard & Poor's but is rated by either Fitch Ratings or Moody's by a rating which is analogous to the ratings of Standard & Poor's, then the EMRC may make the investment relying on the Fitch Ratings or Moody's ratings.

In the event that the rating of an investment held by the EMRC falls below the ratings allowed under this policy for new investments, the affected investment is to be assessed and a recommendation made to the Investment Committee to decide as to whether:

- It is to be liquidated, where allowed under the terms of the investment; or
- It is to be held to maturity.

The recommendation to the Investment Committee may be made by electronic mail (email) to expedite the approval process by circular resolution.

### **4. Approved Investments**

Approved investments are those investments permitted by s6.14(1) of the *Local Government Act 1995* as specified in the Trustees Act 1962 Part III subject to the limitations expressed in Regulation 19C of the *Local Government (Financial Management) Regulations 1996*.

### **5. Prohibited Investments**

This investment policy prohibits any investment which is not an Approved Investment.

### **6. Risk Management Guidelines**

Investments obtained are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value;
- Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market;
- Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- Liquidity Risk - the risk an investor is unable to redeem the investment at a fair price within a timely period;
- Maturity Risk - the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities; and
- Investments must be rated at not less than the Standard & Poor's ratings specified below.



Furthermore investments are to comply with three key criteria relating to:

**a. Overall Portfolio Limits**

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

S&P Long Term Rating	S&P Short Term Rating	Portfolio Maximum %
AAA	A-1 +	100%
AA	A-1	100%

**b. Single Entity Exposure**

Exposure to an individual institution will be restricted by its credit rating so that single entity exposure is limited, as detailed in the table below:

S&P Long Term Rating	S&P Short Term Rating	Portfolio Maximum %
AAA	A-1+	45%
AA	A-1	35%

**c. Term to Maturity Framework**

Term	Minimum %	Maximum %
Portfolio % ≤1 year	40%	100%
Portfolio % >1 year ≤ 3 year	0%	60%

Standard & Poor's long term rating definitions:

AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

Standard & Poor's short term rating definitions:

A-1	A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
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Source: <http://www.standardandpoors.com>



## **7. Measurement**

The investment return for the portfolio is to be regularly reviewed. The market value and investment maturities are to be assessed at least once a month to coincide with management reporting.

## **8. Procedures**

Investments placed by Council's authorised advisor/s and managers must be appropriately documented at the time of placement.

Appropriate procedures and controls in regards to record keeping, reconciliation, authorisation forms and accounting for investments shall be prepared and maintained to give effect to this policy.

All investments must be authorised in writing by the Chief Executive Officer prior to the investments being made.

## **9. Reporting**

An investment report is to be prepared each month detailing compliance with the criteria outlined in this policy.

The investment report is to be presented to Council at the next ordinary meeting of the Council following the end of the month to which the report relates. If the statement is not prepared in time to present it to that meeting it is to be presented at the next Ordinary Meeting of the Council following that meeting.

## **10. Investment Advisor**

The CEO has delegated authority to appoint an investment adviser when considered appropriate.

The local government's investment advisor must be licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended; and is free to choose the most appropriate product within the terms and conditions of the investment policy.

## **11. Investment Strategy**

EMRC's investment strategy is to optimise investment income within its acceptable levels of risk whilst ensuring the security of these funds enabling the EMRC to meet its business objectives.

Key considerations in this regard include funding requirements identified in the Five Year Plan.

To implement the requirement for diversification, no more than 45% of the total investments will be invested in any one bank in short term investments rated A-1+ and no more than 35% of the total investments will be invested in any one bank in short term investments rated A-1.

The EMRC may invest all of the total investments in Commonwealth/State/Territory bonds.

A list of complying authorised deposit-taking institutions (ADI's) are reflected in the Appendix and may vary from time to time

## **FINANCIAL CONSIDERATIONS**

As indicated in this policy.



## Appendix: Indicative Sample List of Compliant Authorised Deposit-Taking Institutions (ADI's)

As at August 2018:

ADI Name	Standard & Poor's Credit Rating (Long / Short)	EMRC Policy Limit per ADI based on short-term credit rating limits
ANZ Banking Group Ltd.	AA- / A-1+	45%
Bank of Western Australia Ltd.	AA- / A-1+	45%
Commonwealth Bank of Australia	AA- / A-1+	45%
National Australia Bank Ltd.	AA- / A-1+	45%
Westpac Banking Corp.	AA- / A-1+	45%
AMP Bank Ltd	A+ / A-1	35%
Suncorp Metway Ltd	A+ / A-1	35%
ING Bank	A / A-1	35%
Macquarie Bank Ltd	A / A-1	35%



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Adopted/Reviewed by Council

1. 29 June 2000
2. 27 July 2000
3. 02 May 2002
4. 17 June 2004
5. 23 February 2006
6. 18 September 2008 (reported to Council and referred to Investment Committee)
7. 19 August 2010
8. 23 September 2010
9. 25 November 2010
10. 10 May 2012
11. 6 December 2012
12. 18 September 2014
13. 06 December 2018

Next Review

Following the Ordinary Elections in 2021

Responsible Directorate

Corporate Services



## 3.3 Management of Investments Policy

### STRATEGIC PLAN OBJECTIVE

3.4 To continue to improve financial and asset management practices.

### PURPOSE

To provide for the investment of EMRC's surplus funds at the most favourable rate of return whilst ensuring prudent consideration of risk and security for the investment type and that liquidity requirements are being met.

To ensure that investments are managed with care, diligence and skill and that the management of the portfolio is carried out to safeguard the portfolio and not for speculative purposes.

Establish guidelines to ensure investments:

- Meet legislative requirements;
- Optimise investment income and returns within acceptable risk parameters;
- Ensure that investments match the liquidity needs of the EMRC; and
- Are invested at the most favourable rate of interest available to it at the time whilst having due consideration of risk and security for that investment type.

### LEGISLATION

*Local Government Act 1995 s.6.14*

*Local Government (Financial Management) Regulations 1996 – r. 19-19C, 28 & 49*

*Local Government (Financial Management) Amendment Regulations 2017 s.19C(2)(b)*

*Trustees Act 1962 - Part III Investments*

### POLICY STATEMENT

#### 1. Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of EMRC's investment portfolio. This policy requires officers to disclose any conflict of interest to the CEO.

TEL (08) 9424 2222 FAX (08) 9277 7598 EMAIL [mail@emrc.org.au](mailto:mail@emrc.org.au) WEB [www.emrc.org.au](http://www.emrc.org.au)

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~~IC - Report Attachment 2 to IC Item 14.1 - Revised Policy - 3.3 Management of Investments - 07 02 2019.DOCX~~  
~~Policy - 3.3 Management of Investments Policy - 06-12-2018.DOCX~~



## 2. Delegation of Authority

Authority for implementation of the Management of Investments Policy is delegated by Council to the CEO in accordance with the *Local Government Act 1995*. The CEO may in turn delegate the day-to-day management of Council's investment portfolio to the Director, Corporate Services.

## 3. Investment Ratings

Investment ratings in this policy are based on those issued by Standard & Poor's.

In the event a proposed investment is not rated by Standard & Poor's but is rated by either Fitch Ratings or Moody's by a rating which is analogous to the ratings of Standard & Poor's, then the EMRC may make the investment relying on the Fitch Ratings or Moody's ratings.

In the event that the rating of an investment held by the EMRC falls below the ratings allowed under this policy for new investments, the affected investment is to be assessed and a recommendation made to the Investment Committee to decide as to whether:

- It is to be liquidated, where allowed under the terms of the investment; or
- It is to be held to maturity.

The recommendation to the Investment Committee may be made by electronic mail (email) to expedite the approval process by circular resolution.

## 4. Approved Investments

Approved investments are those investments permitted by s6.14(1) of the *Local Government Act 1995* as specified in the Trustees Act 1962 Part III subject to the limitations expressed in Regulation 19C of the *Local Government (Financial Management) Regulations 1996*.

## 5. Preference for Non-Fossil Fuel Investments

When making investment decisions, the EMRC will give preference to institutions that do not invest in or finance the fossil fuel industry, where:

- The investment complies with EMRC's investment policy;
- The rate of interest is favourable to EMRC relative to alternative options available at the time;
- The credit rating of the investment is comparable to alternative options available at the time.

Non-fossil fuel investment considerations will be part of the overall selection process to best meet EMRC's investment strategy objectives while ensuring compliance with prevailing legislation and this Investment Policy.

## 5.6. Prohibited Investments

This investment policy prohibits any investment which is not an Approved Investment.

TEL (08) 9424 2222 FAX (08) 9277 7598 EMAIL [mail@emrc.org.au](mailto:mail@emrc.org.au) WEB [www.emrc.org.au](http://www.emrc.org.au)

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~~Policy - 3.3 Management of Investments Policy - 06-12-2018.DOCX~~



#### 6.7. Risk Management Guidelines

Investments obtained are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value;
- Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market;
- Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- Liquidity Risk - the risk an investor is unable to redeem the investment at a fair price within a timely period;
- Maturity Risk - the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities; and
- Investments must be rated at not less than the Standard & Poor's ratings (or Moody's or Fitch Ratings equivalent as detailed in section 3) specified below.

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Furthermore investments are to comply with three key criteria relating to:

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**a. Overall Portfolio Limits**

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

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S&P Long Term Rating	S&P Short Term Rating	Portfolio Maximum %
AAA	A-1 +	100%
AA	A-1	100%
BBB	A-2	15%

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**b. Single Entity Exposure**

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Exposure to an individual institution will be restricted by its credit rating so that single entity exposure is limited, as detailed in the table below:

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S&P Long Term Rating	S&P Short Term Rating	Portfolio Maximum %
AAA	A-1+	45%
AA	A-1	35%
BBB	A-2	5%

**c. Term to Maturity Framework**

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Term	Minimum %	Maximum %
Portfolio % ≤1 year	40%	100%
Portfolio % >1 year ≤ 3 year	0%	60%

Standard & Poor's long term rating definitions:

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AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
BBB	An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the obligor to meet its financial commitment on the obligation.

Standard & Poor's short term rating definitions:

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A-1	A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
A-2	A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

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Source: <http://www.standardandpoors.com>

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#### 7.8. Measurement

The investment return for the portfolio is to be regularly reviewed. The market value and investment maturities are to be assessed at least once a month to coincide with management reporting.

#### 8.9. Procedures

Investments placed by Council's authorised advisor/s and managers must be appropriately documented at the time of placement.

Appropriate procedures and controls in regards to record keeping, reconciliation, authorisation forms and accounting for investments shall be prepared and maintained to give effect to this policy.

All investments must be authorised in writing by the ~~Chief Executive Officer~~ CEO, or EMRC's authorised managers as per the CEO's delegated authority, prior to the investments being made.

#### 9.10. Reporting

An investment report is to be prepared each month detailing compliance with the criteria outlined in this policy.

The investment report is to be presented to Council at the next ordinary meeting of the Council following the end of the month to which the report relates. If the statement is not prepared in time to present it to that meeting it is to be presented at the next Ordinary Meeting of the Council following that meeting.

#### 10.11. Investment Advisor

The CEO has delegated authority to appoint an investment adviser when considered appropriate.

The local government's investment advisor must be licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended; and is free to choose the most appropriate product within the terms and conditions of the investment policy.

#### 11.12. Investment Strategy

EMRC's investment strategy is to optimise investment income within its acceptable levels of risk whilst ensuring the security of these funds enabling the EMRC to meet its business objectives.

Key considerations in this regard include funding requirements identified in the Five Year Plan.

To implement the requirement for diversification, ~~no more than 45% of the total investments will be invested in any one bank in short term investments rated A-1+ and no more than 35% of the total investments will be invested in any one bank in short term investments rated A-1. Council's authorised advisors and managers will comply with the Overall Portfolio Limits, Single Entity Exposure, and Term to Maturity limits, as detailed in section 7(a)(b)(c).~~

The EMRC may invest all of the total investments in Commonwealth/State/Territory bonds.

An indicative sample list of complying authorised deposit-taking institutions (ADI's) are ~~is~~ reflected in the Appendix and may vary from time to time

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~~Prudential edits - IC - Report Attachment 2 to IC Item 14.1 - Revised Policy - 3.3 Management of Investments - 07 02 2019.docx~~  
~~IC - Report Attachment 2 to IC Item 14.1 - Revised Policy - 3.3 Management of Investments - 07 02 2019.DOCX~~  
~~Policy - 3.3 Management of Investments Policy - 06-12-2018.DOCX~~



**FINANCIAL CONSIDERATIONS**

As indicated in this policy.

**Appendix: Indicative Sample List of Compliant Authorised Deposit-Taking Institutions (ADI's)**

As at August/January ~~2018~~2019:

ADI Name	Standard & Poor's Credit Rating (Long / Short)	EMRC Policy Limit per ADI based on short-term credit rating limits
ANZ Banking Group Ltd.	AA- / A-1+	45%
Bank of Western Australia Ltd.	AA- / A-1+	45%
Commonwealth Bank of Australia	AA- / A-1+	45%
National Australia Bank Ltd.	AA- / A-1+	45%
Westpac Banking Corp.	AA- / A-1+	45%
AMP Bank Ltd	A+ / A-1	35%
Suncorp Metway Ltd	A+ / A-1	35%
ING Bank	A / A-1	35%
Macquarie Bank Ltd	A / A-1	35%
<u>Bank of Queensland</u>	<u>BBB+/A-2</u>	<u>5%</u>
<u>Bendigo &amp; Adelaide Bank</u>	<u>BBB+/A-2</u>	<u>5%</u>
<u>Rural Bank</u>	<u>BBB+/A-2</u>	<u>5%</u>
<u>Credit Union Australia</u>	<u>BBB/A-2</u>	<u>5%</u>
<u>ME Bank</u>	<u>BBB/A-2</u>	<u>5%</u>

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Adopted/Reviewed by Council

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10. 10 May 2012
11. 6 December 2012
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- ~~13-14. 21 February 2019~~

Next Review

Following the Ordinary Elections in 2021

Responsible Directorate

Corporate Services

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~~Policy - 3.3 Management of Investments Policy - 06-12-2018.DOCX~~





## 3.3 Management of Investments Policy

### STRATEGIC PLAN OBJECTIVE

3.4 To continue to improve financial and asset management practices.

### PURPOSE

To provide for the investment of EMRC's surplus funds at the most favourable rate of return whilst ensuring prudent consideration of risk and security for the investment type and that liquidity requirements are being met.

To ensure that investments are managed with care, diligence and skill and that the management of the portfolio is carried out to safeguard the portfolio and not for speculative purposes.

Establish guidelines to ensure investments:

- Meet legislative requirements;
- Optimise investment income and returns within acceptable risk parameters;
- Ensure that investments match the liquidity needs of the EMRC; and
- Are invested at the most favourable rate of interest available to it at the time whilst having due consideration of risk and security for that investment type.

### LEGISLATION

*Local Government Act 1995 s.6.14*

*Local Government (Financial Management) Regulations 1996 – r. 19-19C, 28 & 49*

*Local Government (Financial Management) Amendment Regulations 2017 s.19C(2)(b)*

*Trustees Act 1962 - Part III Investments*

### POLICY STATEMENT

#### 1. Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of EMRC's investment portfolio. This policy requires officers to disclose any conflict of interest to the CEO.



## **2. Delegation of Authority**

Authority for implementation of the Management of Investments Policy is delegated by Council to the CEO in accordance with the *Local Government Act 1995*. The CEO may in turn delegate the day-to-day management of Council's investment portfolio to the Director, Corporate Services.

## **3. Investment Ratings**

Investment ratings in this policy are based on those issued by Standard & Poor's.

In the event a proposed investment is not rated by Standard & Poor's but is rated by either Fitch Ratings or Moody's by a rating which is analogous to the ratings of Standard & Poor's, then the EMRC may make the investment relying on the Fitch Ratings or Moody's ratings.

In the event that the rating of an investment held by the EMRC falls below the ratings allowed under this policy for new investments, the affected investment is to be assessed and a recommendation made to the Investment Committee to decide as to whether:

- It is to be liquidated, where allowed under the terms of the investment; or
- It is to be held to maturity.

The recommendation to the Investment Committee may be made by electronic mail (email) to expedite the approval process by circular resolution.

## **4. Approved Investments**

Approved investments are those investments permitted by s6.14(1) of the *Local Government Act 1995* as specified in the Trustees Act 1962 Part III subject to the limitations expressed in Regulation 19C of the *Local Government (Financial Management) Regulations 1996*.

## **5. Preference for Non-Fossil Fuel Investments**

When making investment decisions, the EMRC will give preference to institutions that do not invest in or finance the fossil fuel industry, where:

- The investment complies with EMRC's investment policy;
- The rate of interest is favourable to EMRC relative to alternative options available at the time;
- The credit rating of the investment is comparable to alternative options available at the time.

Non-fossil fuel investment considerations will be part of the overall selection process to best meet EMRC's investment strategy objectives while ensuring compliance with prevailing legislation and this Investment Policy.

## **6. Prohibited Investments**

This investment policy prohibits any investment which is not an Approved Investment.



## 7. Risk Management Guidelines

Investments obtained are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio’s total value;
- Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market;
- Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- Liquidity Risk - the risk an investor is unable to redeem the investment at a fair price within a timely period;
- Maturity Risk - the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities; and
- Investments must be rated at not less than the Standard & Poor’s ratings (or Moody’s or Fitch Ratings equivalent as detailed in section 3) specified below.

Furthermore investments are to comply with three key criteria relating to:

### a. Overall Portfolio Limits

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

S&P Long Term Rating	S&P Short Term Rating	Portfolio Maximum %
AAA	A-1 +	100%
AA	A-1	100%
BBB	A-2	15%

### b. Single Entity Exposure

Exposure to an individual institution will be restricted by its credit rating so that single entity exposure is limited, as detailed in the table below:

S&P Long Term Rating	S&P Short Term Rating	Portfolio Maximum %
AAA	A-1+	45%
AA	A-1	35%
BBB	A-2	5%

### c. Term to Maturity Framework

Term	Minimum %	Maximum %
Portfolio % ≤1 year	40%	100%
Portfolio % >1 year ≤ 3 year	0%	60%



Standard & Poor's long term rating definitions:

AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
BBB	An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the obligor to meet its financial commitment on the obligation.

Standard & Poor's short term rating definitions:

A-1	A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
A-2	A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

Source: <http://www.standardandpoors.com>

## 8. Measurement

The investment return for the portfolio is to be regularly reviewed. The market value and investment maturities are to be assessed at least once a month to coincide with management reporting.

## 9. Procedures

Investments placed by Council's authorised advisor/s and managers must be appropriately documented at the time of placement.

Appropriate procedures and controls in regards to record keeping, reconciliation, authorisation forms and accounting for investments shall be prepared and maintained to give effect to this policy.

All investments must be authorised in writing by the CEO, or EMRC's authorised managers as per the CEO's delegated authority, prior to the investments being made.

## 10. Reporting

An investment report is to be prepared each month detailing compliance with the criteria outlined in this policy.

The investment report is to be presented to Council at the next ordinary meeting of the Council following the end of the month to which the report relates. If the statement is not prepared in time to present it to that meeting it is to be presented at the next Ordinary Meeting of the Council following that meeting.



#### **11. Investment Advisor**

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**15 REPORTS OF DELEGATES**

Nil

**16 MEMBERS' MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN**

Nil

**17 NEW BUSINESS OF AN URGENT NATURE APPROVED BY THE CHAIRMAN OR PRESIDING MEMBER OR BY DECISION OF MEETING**

Nil

**18 CONFIDENTIAL MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC**

Nil

**19 FUTURE MEETINGS OF THE INVESTMENT COMMITTEE**

The Investment Committee will meet as required. The next Investment Committee meeting will be held at a date to be advised.

**20 DECLARATION OF CLOSURE OF MEETING**

There being no further business, the meeting was closed at 7:01pm.